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INFO RUCNASE/ASEAN MEMBER COLLECTIVE  
RUEHGG/UN SECURITY COUNCIL COLLECTIVE  
RUEHBY/AMEMBASSY CANBERRA 2263  
RUEHNE/AMEMBASSY NEW DELHI 5725  
RUEHUL/AMEMBASSY SEOUL 9329  
RUEHKO/AMEMBASSY TOKYO 6913  
RUEHCN/AMCONSUL CHENGDU 1901  
RUEHCHI/AMCONSUL CHIANG MAI 2316  
RUEAIIA/CIA WASHDC  
RHHMUNA/CDR USPACOM HONOLULU HI  
RUEHGV/USMISSION GENEVA 4670  
RHEHNSC/NSC WASHDC  
RUCNDT/USMISSION USUN NEW YORK 2698  
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C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000601

SIPDIS

STATE FOR EAP AND IO; PACOM FOR FPA

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TAGS: [PGOV](#) [PREL](#) [PHUM](#) [BM](#)

SUBJECT: BURMA: GOB PRESENTS ITS SIDE OF THE STORY ON THE  
KOKANG CONFLICT

REF: A. RANGOON 575

[1](#)B. RANGOON 573

[1](#)C. RANGOON 567

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Classified By: CDA, a.i. Thomas L. Vajda for Reasons 1.4 (b) & (d)

Summary

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[1](#)1. (C) The GOB Foreign Ministry arranged a September 7-9 trip for diplomats and media to the Kokang Region to present its version of the recent events there, offering a tour of an illicit Kokang arms factory and the homes and alleged drug labs of Kokang factional leaders who have since fled to China. The GOB has created a committee in Nay Pyi Taw to administer the region directly, but it also used the trip to introduce the new Kokang leader, Pai So Cheng. He will no doubt be more accommodating to the GOB's plans -- turning the Kokang militia into elements of a new Border Guard Force (BGF) and securing the ethnic group's participation in the 2010 elections. However, it remains unclear whether other Kokang will be equally willing to go along. Pai So Cheng himself, like his ousted predecessor, is a known narcotics trafficker. End summary.

The GOB's Version of Events in Kokang

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[1](#)2. (SBU) Over the weekend MOFA hurriedly organized a trip to Lashio, Shan State and Laukkai, Kokang Region for diplomats and select local and international press representatives. CDA, a.i. and Air Attache attended. The group flew to Lashio on September 7, then drove to Laukkai and back -- nearly 14 hours on awful roads -- on September 8. The delegation returned to Rangoon the following day, though the plane made an unexpected stop in Nay Pyi Taw en route to drop off all Burmese journalists -- perhaps to receive their reporting instructions directly from GOB authorities.

[1](#)3. (SBU) In Laukkai, Deputy Home Affairs Minister Brigadier

General Phone Swe briefed trip participants on the GOB's version of events precipitating the fighting in Kokang that, by its account, left 15 Burmese police and 11 Burmese military dead. According to Phone Swe, Chinese officials attending a regular bilateral border management meeting on July 19-22 in Mandalay first informed the GOB of the existence of an illicit Kokang arms factory in Laukkai, located very close to the border with China. On August 8, GOB security forces raided the site and charged five Myanmar National Democratic Alliance Army (MNDAA) leaders, including chairman Peng Jiasheng, with a series of offenses in connection with the factory's operation. The Deputy Minister reported that police also found methamphetamines and drug-production equipment at the site.

14. (SBU) Phone Swe stated that on August 27, MNDAA forces loyal to Peng Jiasheng took hostage 39 police officers who were deployed at the China-Burma border checkpoint and held them at a Kokang detention facility in Laukkai. Unable to secure their release via negotiations, the Burmese military on August 28 assaulted the post. GOB officials claim Kokang militia responded by killing 14 of the police hostages, shooting many at point-blank range. Another 11 hostages were wounded during the attack. The Deputy Minister assured the assembled group that order has been completely restored in the Kokang region and that the local population supports the government. The regime newspaper, the New Light of Myanmar, published a full account of Phone Swe's briefing in its September 9 edition.

#### Site Visits

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15. (SBU) Following the briefing, MOFA drove the diplomatic/press group to the arms factory. On display were large caches of weapons in various stages of production, as well as arms manufacturing equipment. Also on display were methamphetamine tablets, precursor chemicals, and lab equipment. The next stop was the Kokang detention facility where the police hostages had been held and shot, with graphic photographs of the victims on exhibit (some of the photos had earlier run in the NLOM). The GOB also took the group to the homes of MNDAA leaders Yang Si Shin and Peng Chia-fu (aka Peng Jiafu, the brother of Peng Jiasheng), in both cases displaying drugs and related materials allegedly seized from the residences. Yang Si Shin's home included an underground methamphetamine lab.

16. (SBU) During the tour, police officials elaborated that the arms factory had been in operation for four years producing automatic weapons, pistols, grenade launchers, grenades, and other weapons. Most of those arms were produced for Kokang use, but police officials claimed that in the last year the Kokang began selling weapons regionally, including to "anti-government" groups in China (NFI). One police official intimated that the arms sales in China brought the arms factory to the attention of PRC authorities, who then alerted their Burmese counterparts. When asked how the GOB could, for so long, remain unaware of an arms factory so close to a major border crossing point, one police official stated that the site was a "safe place" for the Kokang -- i.e., an area to which Burmese authorities do not have access.

17. (C) We have no way to confirm any of these GOB statements, but the MNDAA arms factory and drug production facilities certainly appeared convincing, and what we were shown by the GOB tracks with information obtained by DEA Rangoon.

18. (SBU) Laukkai itself was extremely quiet, with most shops closed and few people on the streets. UN officials familiar with the city noted that the main road to the border checkpoint, as well as other commercial areas, are normally

abuzz with activity. All signs in the city are in Chinese, and the yuan is the currency of choice, underscoring the Han Chinese ethnicity of the majority of the Kokang and the region's economic orientation to China.

GOB Direct Administration, For Now  
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¶9. (SBU) According to a GOB paper distributed to diplomats and the press, the SPDC on September 1 issued a directive creating a "Leading Committee for Development in Kokang Region" with Senior General Than Shwe as chairman and Secretary 1 Thiha Thura Tin Aung Myint Oo as Vice Chair. The Deputy Home Affairs Minister will head the committee working group. The committee's mandate is extremely broad, implying direct SPDC control over much of the region's activities, at least temporarily. The paper cites the 2008 constitutional provision establishing Kokang as an autonomous region after the 2010 elections, but implies the possibility of a continued direct role for the central government if arms and narcotics smuggling, money laundering, casino gambling, and terrorist financing persist.

New Kokang Leader  
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¶10. (C) New MNDAA leader Pai So Cheng was on hand at the Home Affairs briefing in Laukkai and spoke to reporters (but not diplomats) afterwards. A known narcotics trafficker like Peng Jiasheng, he apparently represents an MNDAA faction willing to cooperate with the regime's plans to create a border guard force out of the Kokang militia; he will also

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likely seek to accommodate the regime's interests in the 2010 elections. It is evident he has the GOB's blessing, at least for now. What is not clear is his ability to deliver on whatever deal he has struck with the regime; as one Home Affairs official admitted privately to a diplomatic colleague, further Kokang factional conflict and even fighting with the GOB remain possibilities.  
VAJDA